

Economic and Investment Newsletter

November 2025

Current Market Commentary

When driving through fog without visibility, a prudent approach is to proceed slowly rather than increase speed. This caution parallels the Federal Reserve's current stance. The absence of inflation and key economic data—stemming from the government shutdown—has prompted policymakers to remain vigilant and avoid premature decisions. As stated in our October Newsletter, we support the view that there will be no more rate cuts in 2025, given ongoing uncertainty regarding tariff policies and disruptions in employment and inflation data from the Bureau of Labor Statistics.

Until official labor market data is published in December, analysis must rely on anecdotal evidence. Early indicators suggest the labor market remains in a holding pattern. Employers, having recently faced significant post-pandemic labor shortages, are cautious about layoffs, while employees—impacted by inflation—are hesitant to make employment moves, particularly as the holiday season approaches.

Although initial rate cuts have materialized, the market is now pricing in a prolonged timeline for subsequent reductions. The US dollar has maintained strength against the Euro and Yen as their respective economies struggle. Whether a strong dollar offers genuine benefits to the US economy is a topic of debate. A robust dollar may widen the trade deficit by making US goods less competitive abroad and may encourage American consumer to demand imports, even as intermittent tariffs—primarily absorbed by US importers thus far—persist. The Trump Administration's America First trade policies intended to curb this trend, but results have been mixed. Nevertheless, a strong dollar can help contain inflation, even as firms begin passing on tariff-related costs to consumers.

Despite the longest government shutdown in US history, persistent market volatility, and economic uncertainty, the dollar remains resilient even after the Federal Reserve initiated interest rate cuts. The ongoing global appetite for safety underscores continued reliance on the US dollar as a preferred safe-haven asset. Concurrently, falling gold prices—driven by dollar strength and a lower interest rate environment—reflect diminished demand for non-yielding assets. As investors reposition, the US dollar may further benefit from renewed global interest.

Until the Bureau of Labor Statistics provides updated labor and inflation figures in December, uncertainty will persist, and market sentiment will likely be shaped more by psychology than by fundamental economic data.



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Fintent Invest Strategy Outlook

The most significant psychological driver in today's equity market is the AI Trade. Even seasoned investors are experiencing FOMO (Fear of Missing Out), as the Magnificent Seven—Apple, Microsoft, Alphabet, Amazon, Nvidia, Tesla, and Meta—now represent over one-third of the S&P 500 market capitalization. In the first three quarters of 2025, the S&P 500 returned 14.8%, with 41.8% of those gains driven by the Magnificent Seven, led by Nvidia.

Fintent Invest advocates for disciplined diversification. While allocating a portfolio heavily toward the Mag 7 is tempting, investing is not gambling—it requires balancing risk and return with a strategic, long-term focus on risk-adjusted returns. Hence, it begs the question of “how to best invest in an AI economy when valuations appear frothy?”

Investors are asking three key questions:

1. Is AI real? Yes.
2. Are current valuations for AI-related investments fair? Maybe.
3. Are these valuations sustainable? No.

Is AI Real?

AI is unequivocally transforming the economy. A Harvard economist estimates 92% of U.S. GDP growth in the first half of 2025 was driven by AI investment. Unlike the dot-com era, today's AI spending is led by profitable, globally established firms with the cash flow and the risk capacity for investments whose returns may take years to materialize. While this distinguishes AI from the dot-com boom, widespread consumer adoption may still require time.

Are Current AI Valuations Fair?

Estimated Q2/Q3 2025 price-to-book (P/B) ratios for the Mag 7 range from 7x to 14x, versus about 5x for the S&P 500. Since book value often excludes internally developed intangibles, especially for companies investing in proprietary AI, true book value may be understated, complicating fair value assessments. Q2 2025 S&P 500 P/E was roughly 28x (including Mag 7), while the S&P 493 (excluding Mag 7) stood at just 16x. The Q2 PEG for the S&P 500 was 2.0x and 1.7x for the Mag 7, suggesting stronger growth prospects in Mag 7 makes their PEG metrics appear attractive relative to S&P493.



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Are AI Valuations Sustainable?

Current valuations are unlikely to persist as they approach bubble territory. The median trailing P/E for the S&P 500 from 1980 to 2024 was 20x, with 2024 at 25x. The S&P 500 trailing P/E just before the dot-com bubble burst (1999) was 33x; Nvidia trades at 53x and Meta trades at 27x as of November 2025. Given our current valuations, perhaps a more sustainable approach to the AI trade is to look for investment opportunities in companies that are utilizing AI to increase their profit margins through technology, capital efficiency, and human capital productivity.

Fintent Invest is committed to diversification across geographies, market caps, and asset classes in our portfolio construction process. Building sustainable long-term wealth demands cost-effective diversification—especially across asset classes. AI is generating real economic growth, but the current valuations are not likely sustainable. To position clients for long-term success, we look beyond short-term returns and emphasize risk-adjusted, long-term results in an AI-driven economy.

We avoid overweighting our model portfolios toward the Mag 7, based on a belief that AI's broader impact on workforce productivity is in its early stages. Broad-based large-cap firms are better equipped to tailor AI for efficiency, and will generate long-term returns given current valuations, relative to the Mag 7. Our portfolio models continue to underweight small and mid-sized companies as they face liquidity challenges amid elevated tariffs and subdued demand domestically and abroad.

On the fixed income side, Fintent Invest remains committed to a nuanced approach as the widening of spread between investment and non-investment grade bonds is a matter of "when," not "if." Cash flow will increasingly challenge smaller firms, while rising national debt is a concern for long-term Treasuries. Thus, we continue to emphasize medium-duration, high-quality corporate bonds within our portfolios.

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